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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

## FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 04/01/03 AND ENDING 3/31/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**NAME OF BROKER-DEALER: MONROE SECURITIES, INC.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

343 W. ERIE STREET, SUITE 410

(No. and Street)

CHICAGO

(City)

IL

(State)

60610

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

DANIEL KANTER OR CRAIG CARLINO(312) 327-2533

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

SALMIN, CELONA, WEHRLE & FLAHERTY, LLP

(Name - if individual, state last, first, middle name)

1170 CHILI AVENUE

(Address)

ROCHESTER

(City)

NEW YORK

(State)

14624-3033

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 10 2004

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FINANCIAL**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, CRAIG CARLINO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MONROE SECURITIES, INC., as of MARCH 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

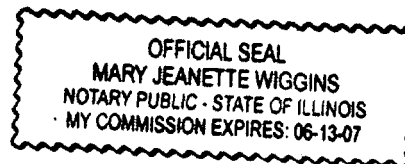
Craig Carlino  
Signature

CFO

Title

May 28, 2004

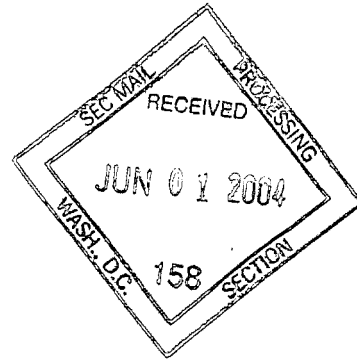
Mary Jeanette Wiggins  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Report of Independent Accountants on Internal Control as required by SEC Rule 17a-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**MONROE SECURITIES, INC.**

Financial Statements  
March 31, 2004

BM

# SALMIN, CELONA, WEHRLE & FLAHERTY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1170 CHILI AVENUE • ROCHESTER, NY 14624-3033  
585 / 279 / 0120 • FAX 585 / 279 / 0166 • EMAIL postmaster@scwf-cpa.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders  
Monroe Securities, Inc.

We have audited the statement of financial condition of Monroe Securities, Inc. (Company) as of March 31, 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the period from inception (June 24, 2003) to March 31, 2004 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monroe Securities, Inc. (Company) as of March 31, 2004, and the results of its operations and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Monroe Securities, Inc. (Company) is a 100% owned subsidiary of Monroe Securities Holdings, Inc.

*Salmin, Celona, Wehrle & Flaherty, LLP*

Salmin, Celona, Wehrle & Flaherty, LLP

April 27, 2004

# SALMIN, CELONA, WEHRLE & FLAHERTY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1170 CHILI AVENUE • ROCHESTER, NY 14624-3033  
585 / 279 / 0120 • FAX 585 / 279 / 0166 • EMAIL postmaster@scwf-cpa.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders  
Monroe Securities, Inc.

We have audited the statement of financial condition of Monroe Securities, Inc. (Predecessor) as of March 31, 2003, and the related statements of income, changes in shareholders' equity, and cash flows for the period from April 1, 2003 to June 23, 2003 and for the year ended March 31, 2003 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monroe Securities, Inc. (Predecessor) as of March 31, 2003, and the results of its operations and its cash flows for the period April 1, 2003 to June 22, 2003 and for the year ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Monroe Securities, Inc. (Predecessor) was a 52% owned subsidiary of 3C General Corp.

*Salmin, Celona, Wehrle & Flaherty, LLP*

Salmin, Celona, Wehrle & Flaherty, LLP

April 27, 2004

MONROE SECURITIES, INC.  
STATEMENTS OF FINANCIAL CONDITION  
MARCH 31, 2004 AND 2003

ASSETS

	<u>COMPANY</u>	<u>PREDECESSOR</u>
	<u>2004</u>	<u>2003</u>
Cash	\$ 456,674	\$ 346,203
Receivable from brokers and dealers	2,512,756	2,759,141
Securities in firm account, at market	1,721,949	13,885,533
Securities held for investment	1,265,828	-
Prepaid income taxes	-	137,735
Property and equipment, net	77,137	53,323
Restricted deposits	100,008	100,000
Other assets	1,682	-
Goodwill	4,783,873	-
Total assets	<u>\$ 10,919,907</u>	<u>\$ 17,281,935</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Accounts payable and other liabilities	\$ 99,608	\$ 34,202
Securities sold but not yet purchased	304,308	73,137
Income taxes payable	247,463	-
Deferred tax liability	44,470	12,900
Total liabilities	<u>695,849</u>	<u>120,239</u>

Shareholders' equity:

Common stock, par value \$.02 per share; authorized 1,000,000 shares; issued and outstanding 383,888 shares	7,678	7,678
Capital in excess of par value	8,800,600	219,169
Retained earnings	1,389,127	16,934,849
Accumulated other comprehensive income	26,653	-
Total shareholders' equity	<u>10,224,058</u>	<u>17,161,696</u>
Total liabilities and shareholders' equity	<u>\$ 10,919,907</u>	<u>\$ 17,281,935</u>

See accompanying notes to financial statements

MONROE SECURITIES, INC.  
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	<u>COMPANY</u>	<u>PREDECESSOR</u>	
	June 24, 2003 - March 31, 2004	April 1, 2003 - June 23, 2003	April 1, 2002 - March 31, 2003
Revenue:			
Income on securities transactions, net	\$ 4,227,508	\$ 936,263	\$ 4,417,906
Interest, dividends and other income	604,356	184,463	906,385
Commissions	<u>14,616</u>	<u>4,439</u>	<u>15,718</u>
Total revenue	<u>4,846,480</u>	<u>1,125,165</u>	<u>5,340,009</u>
Expenses:			
Compensation and benefits	1,219,009	128,780	768,050
Technology and subscriptions	461,268	114,831	439,732
Occupancy	120,395	27,631	103,393
Other operating expenses	125,579	24,218	102,580
Professional fees	<u>26,379</u>	<u>1,539</u>	<u>17,054</u>
Total expenses	<u>1,952,630</u>	<u>296,999</u>	<u>1,430,809</u>
Income before provision for income taxes	2,893,850	828,166	3,909,200
Provision for income taxes	<u>964,533</u>	<u>281,195</u>	<u>1,280,100</u>
Net income	<u>1,929,317</u>	<u>546,971</u>	<u>2,629,100</u>
Other comprehensive income:			
Unrealized holding gains on securities	43,693	-	-
Income tax expense related to holding gains	<u>(17,040)</u>	<u>-</u>	<u>-</u>
Other comprehensive income, net of tax	<u>26,653</u>	<u>-</u>	<u>-</u>
Comprehensive income	<u>\$ 1,955,970</u>	<u>\$ 546,971</u>	<u>\$ 2,629,100</u>

See accompanying notes to financial statements

MONROE SECURITIES, INC.  
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FROM INCEPTION (JUNE 24, 2003) TO MARCH 31, 2004

COMPANY

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, June 24, 2003	\$7,678	\$22,484,862	\$ -	\$ -	\$22,492,540
Net income for the period ended March 31, 2004	-	-	1,929,317	-	1,929,317
Other comprehensive income: Net unrealized holding gains	-	-	-	26,653	26,653
Dividends paid	-	(13,684,262)	(540,190)	-	(14,224,452)
Balance, March 31, 2004	<u>\$7,678</u>	<u>\$ 8,800,600</u>	<u>\$ 1,389,127</u>	<u>\$26,653</u>	<u>\$10,224,058</u>

See accompanying notes to financial statements



MONROE SECURITIES, INC.  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED MARCH 31, 2003  
AND THE PERIOD FROM APRIL 1, 2003 TO JUNE 23, 2003

PREDECESSOR

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, April 1, 2002	\$7,678	\$219,169	\$14,305,749	\$14,532,596
Net income for the year ended March 31, 2003	<u>-</u>	<u>-</u>	<u>2,629,100</u>	<u>2,629,100</u>
Balance, March 31, 2003	7,678	219,169	16,934,849	17,161,696
Net income for the period from April 1, 2003 to June 23, 2003	<u>-</u>	<u>-</u>	<u>546,971</u>	<u>546,971</u>
Balance, June 23, 2003	<u>\$7,678</u>	<u>\$219,169</u>	<u>\$17,481,820</u>	<u>\$17,708,667</u>

See accompanying notes to financial statements

MONROE SECURITIES, INC.  
STATEMENTS OF CASH FLOWS

	<u>COMPANY</u>	<u>PREDECESSOR</u>	
	<u>June 24, 2003 - March 31, 2004</u>	<u>April 1, 2003 - June 23, 2003</u>	<u>April 1, 2002 - March 31, 2003</u>
Cash flows from operating activities:			
Net income	\$ 1,929,317	\$ 546,971	\$ 2,629,100
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	18,226	-	7,494
Deferred taxes	14,530	-	12,900
Decrease (increase) in receivable from brokers and dealers	865,891	(619,506)	(832,787)
Decrease (increase) in securities in firm account	12,130,718	32,866	(1,957,804)
Decrease (increase) in prepaid income taxes	-	137,735	(46,847)
Decrease (increase) in other assets	7,310	(9,000)	20,100
Increase (decrease) in accounts payable and other liabilities	63,695	1,711	34,202
Increase (decrease) in securities sold but not yet purchased	304,308	(73,137)	(7,163)
Increase (decrease) in income taxes payable	16,003	231,460	(60,845)
Total adjustments	13,420,681	(297,871)	(2,830,750)
Net cash provided by (used in) operating activities	15,349,998	249,100	(201,650)
Cash flows from investing activities:			
Acquisition of securities held for investment	(1,222,135)	-	-
Acquisition of property and equipment	(42,040)	-	(37,281)
Net cash provided by (used in) investing activities	(1,264,175)	-	(37,281)
Cash flows from financing activities:			
Dividends paid	(14,224,452)	-	-
Net cash provided by (used in) financing activities	(14,224,452)	-	-
Net increase (decrease) in cash	(138,629)	249,100	(238,931)
Cash - beginning	595,303	346,203	585,134
Cash - end	\$ 456,674	\$ 595,303	\$ 346,203
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 952,000	\$ -	\$ 1,375,010
Cash paid for interest	\$ 124	\$ -	\$ -

See accompanying notes to financial statements

MONROE SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

1. THE COMPANY

Monroe Securities, Inc. is a securities broker/dealer engaged in the purchase and sale of securities, who executes transactions and introduces them to a Clearing Broker, a New York Stock Exchange Member Firm, on a fully disclosed basis.

Prior to June 24, 2003, Monroe Securities, Inc. (Predecessor) was a 52% owned subsidiary of 3C General Corp. (3CG). 3CG had no substantial operations, except for its investment in the Predecessor. In a series of transactions commencing on June 23, 2003, Monroe Securities Holdings, Inc. (MSHI) acquired all of the outstanding common stock of the Predecessor and 3CG. As a result, Monroe Securities, Inc. (Company) became a wholly owned subsidiary of Monroe Securities Holdings, Inc.

The aggregate purchase price was \$22,492,540, which includes notes payable from MSHI to the sellers in the amount of \$8,725,211 (see Note 10), a distribution of securities in the amount of \$4,876,493, and the balance paid in cash. The fair values of the assets acquired and liabilities assumed in connection with the acquisition have been recorded in the financial statements of the Company. The new basis of accounting was established on June 24, 2003. The following table summarizes this activity:

Current assets (including securities of \$13,852,667)	\$17,826,617
Property and equipment	53,323
Other assets	109,000
Goodwill	<u>4,783,873</u>
	22,772,813
Liabilities	<u>(280,273)</u>
Net assets acquired	<u>\$22,492,540</u>

Disclosures in these financial statements represent the Company for the period from inception (June 24, 2003) to March 31, 2004 and the Predecessor for the year ended March 31, 2003 and the period from April 1, 2003 to June 23, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Income Recognition - Securities transactions are recorded on the settlement date which is not materially different from trade date accounting as required by accounting principles generally accepted in the United States of America. Commission income and expenses are reflected in the financial statements as of the trade date.

Receivable from Brokers and Dealers - The Company has a receivable that arose from trading activity with its Clearing Broker. Losses from uncollectible receivables shall be accrued when it is probable that a receivable is impaired and the amount of the loss can be reasonably estimated. As of the date of the financial statements, management believes that neither of these conditions exist with regard to receivables and, as such, an allowance for doubtful accounts has not been established.

Securities in Firm Account - Securities in firm account consist primarily of corporate stocks and are stated at current market values as determined by management. The Company primarily transacts in securities in thinly traded markets. Accordingly, management uses various parameters to calculate market values. These estimated current market values may differ from the values that would have been used had a ready market for the securities existed. Unrealized gains and losses are included in income on securities transactions in the statement of income. Realized gains and losses are computed based on the difference between sales proceeds received and original cost.

MONROE SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Gains and losses on securities in firm account were as follows:

	<u>June 24, 2003 - March 31, 2004</u>	<u>April 1, 2003 - June 23, 2003</u>	<u>April 1, 2002 - March 31, 2003</u>
Unrealized gains (losses)	<u>\$ (17,113)</u>	<u>\$ 264,119</u>	<u>\$ 650,491</u>
Net realized gains	<u>\$4,244,621</u>	<u>\$ 672,144</u>	<u>\$3,767,415</u>

Securities Held for Investment - Securities held for investment consist primarily of thinly traded corporate stocks and are stated at current market value as determined by management. The Company classifies these securities as "available for sale". Realized gains and losses are included in earnings. Unrealized holding gains and losses are reported net of tax in other comprehensive income.

At March 31, 2004, securities held for investment had a current market value of \$1,265,828, a cost of \$1,222,135 and a total unrealized gain of \$43,693.

Property and Equipment - Property and equipment are recorded at cost. When retired or otherwise disposed of, the related cost and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from the disposition, is reflected in income.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 5 to 39 years.

Restricted Deposits - The Company is required to maintain a minimum balance of \$100,000 in a restricted collateral account pursuant to an agreement between the Company and its Clearing Broker.

Goodwill - Goodwill is not being amortized and will be evaluated on an annual basis, or sooner if deemed necessary, for potential impairment. None of the amount allocated to goodwill will be amortized for tax purposes.

Income Taxes - The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties - Cash is maintained in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. The Company is also subject to credit risk through its receivable. Credit risk with respect to this receivable is minimized as certain losses are insured by SIPC and excess SIPC coverage. Investment securities are exposed to various risks, such as interest rate, market and credit risks. The credit risk is minimized as the investment securities are insured against certain losses by SIPC and excess SIPC coverage. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in these financial statements.

MONROE SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Reclassifications - Certain account balances at March 31, 2003 were reclassified to conform to account classifications used by the Company at March 31, 2004. These changes had no effect on reported results of operations or financial position.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>March 31,</u> <u>2004</u>	<u>March 31,</u> <u>2003</u>
Computer equipment, furniture and fixtures	\$ 63,265	\$ 95,823
Software	28,307	-
Leasehold improvements	<u>3,791</u>	<u>3,795</u>
	95,363	99,618
Less: Accumulated depreciation	<u>18,226</u>	<u>46,295</u>
	<u>\$ 77,137</u>	<u>\$ 53,323</u>

4. NET CAPITAL REQUIREMENTS

The Company is subject to the requirements of Rule 15c3-1, the net capital rule, under the Securities Exchange Act of 1934. On March 31, 2004, the Company had net capital of \$4,205,338 against a net capital requirement of \$1,000,000. The Company's aggregate indebtedness to net capital ratio was .0931 to 1.

5. INCOME TAXES

The provision for income taxes consists of the following:

	<u>June 24, 2003 -</u> <u>March 31, 2004</u>	<u>April 1, 2003 -</u> <u>June 23, 2003</u>	<u>April 1, 2002 -</u> <u>March 31, 2003</u>
Currently payable - federal	\$ 749,458	\$ 224,940	\$1,025,400
Currently payable - state	200,545	56,255	241,800
Deferred	<u>14,530</u>	<u>-</u>	<u>12,900</u>
	<u>\$ 964,533</u>	<u>\$ 281,195</u>	<u>\$1,280,100</u>

The actual income tax provision differs from the expected tax provision computed by applying the U.S. Federal Corporate rate primarily due to state taxes and the effects of the dividends received deduction. The deferred tax expense is a result of the tax effect of the difference in depreciation methods for financial statement and tax purposes.

For the period from inception (June 24, 2003) to March 31, 2004, the Company files consolidated tax returns with its parent and records its share of the consolidated tax expense on a separate return basis.

MONROE SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

6. BENEFIT PLAN

The Company established a SIMPLE-IRA Plan, effective August 1, 2002, for its employees. Employees may defer a percentage of their compensation up to certain IRS limits. The Company's contribution to the plan is up to 3% of each participant's compensation.

Employer contributions were as follows:

<u>June 24, 2003 - March 31, 2004</u>	<u>April 1, 2003 - June 23, 2003</u>	<u>April 1, 2002 - March 31, 2003</u>
<u>\$ 2,278</u>	<u>\$ 338</u>	<u>\$ 1,351</u>

7. RELATED PARTY TRANSACTIONS

The Company rented its Rochester, New York office space under an informal agreement through November, 2003 from two individuals that were officers/shareholders until June 23, 2003.

Beginning in June, 2003, the Company rented its Chicago, Illinois office space under an informal agreement from Ravenswood Capital Management, LLC, an entity wholly owned by the two shareholders of Monroe Securities Holdings, Inc.

Rental expense under these informal agreements were as follows:

	<u>June 24, 2003 - March 31, 2004</u>	<u>April 1, 2003 - June 23, 2003</u>	<u>April 1, 2002 - March 31, 2003</u>
Rochester, New York	\$ 22,936	\$ 16,990	\$ 67,960
Chicago, Illinois	<u>53,503</u>	<u>3,750</u>	<u>-</u>
	<u>\$ 76,439</u>	<u>\$ 20,740</u>	<u>\$ 67,960</u>

The Company also paid consulting fees to Ravenswood Capital Management, LLC for general management as follows:

<u>June 24, 2003 - March 31, 2004</u>	<u>April 1, 2003 - June 23, 2003</u>	<u>April 1, 2002 - March 31, 2003</u>
<u>\$ 550,760</u>	<u>\$ 29,750</u>	<u>\$ 18,250</u>

8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK

As discussed in Note 1, the Company executes transactions and introduces them to a Clearing Broker on a fully disclosed basis. The Company's exposure to credit risk pursuant to securities transactions can be directly impacted by volatile trading markets. The Company's policy is to monitor its market exposure risk.

MONROE SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

9. COMMITMENTS

The Company entered into a lease agreement with an unrelated party for its Rochester, New York office effective December, 2003. Under the terms of the agreement, the Company is required to pay \$1,000 per month rent for a two year period.

As discussed in Note 1, the Company is a wholly owned subsidiary of Monroe Securities Holdings Inc, (MSHI). In connection with the acquisition of the Company, MSHI issued four notes payable in the amount of \$8,725,211. Two of the notes, aggregating \$4,034,730, require monthly payments in aggregate of \$50,000, including interest at 6.25%, and mature in October, 2012. The other two notes, aggregating \$4,690,481, bear interest at 8.25% and require quarterly payments based upon the revenue of the Company. It is anticipated that payments against these latter two notes will aggregate approximately \$173,100 per quarter. These notes mature in December 31, 2013. It is anticipated that cash distributions from the Company to MSHI will be made to meet the debt service requirements.

The Company does not guarantee the debt nor has it pledged any assets. However, the outstanding common stock of the Company has been pledged by MSHI as collateral in connection with the notes payable discussed above.

# SALMIN, CELONA, WEHRLE & FLAHERTY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1170 CHILI AVENUE • ROCHESTER, NY 14624-3033  
585 / 279 / 0120 • FAX 585 / 279 / 0166 • EMAIL postmaster@scwf-cpa.com

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION

To the Board of Directors and Shareholders  
Monroe Securities, Inc.

Our report on our audit of the basic financial statements of Monroe Securities, Inc. as of March 31, 2004 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Salmin, Celona, Wehrle & Flaherty, LLP*

Salmin, Celona, Wehrle & Flaherty, LLP

April 27, 2004



MONROE SECURITIES, INC.  
SCHEDULE I - COMPUTATION OF NET CAPITAL  
UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION  
MARCH 31, 2004

1.	Total ownership equity from Statement of Financial Condition	\$10,224,058
2.	Deduct ownership equity not allowable for Net Capital	<u>-</u>
3.	Total ownership equity qualified for Net Capital	<u>10,224,058</u>
4.	Add:	
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital	-
	B. Other (deductions) or allowable credits	<u>-</u>
5.	Total capital and allowable subordinated liabilities	<u>10,224,058</u>
6.	Deductions and/or charges:	
	A. Total non allowable assets from Statement of Financial Condition	(4,862,692)
	B. Secured demand note deficiency	
	C. Commodity futures contracts and spot commodities	-
	D. Other deductions and/or charges	-
7.	Other additions and/or allowable credits	<u>-</u>
8.	Net capital before haircuts on securities positions	5,361,366
9.	Haircuts on securities:	
	A. Contractual securities commitments	-
	B. Subordinated securities borrowings	-
	C. Trading and investment securities:	
	1. Exempted securities	-
	2. Debt securities	-
	3. Options	-
	4. Other securities	-
	D. Undue Concentration	(249,451)
	E. Other	<u>(906,577)</u>
10.	Net Capital	<u>\$ 4,205,338</u>

MONROE SECURITIES, INC.  
SCHEDULE I - COMPUTATION OF NET CAPITAL  
UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION  
MARCH 31, 2004  
(Continued)

**Computation of Basic Net Capital Requirement**

11. Minimum net capital required (6-2/3% of line 19)	\$ 26,116
12. Minimum dollar net capital requirement of reporting broker and dealer	\$ 1,000,000
13. Net capital requirement (greater of line 11 or 12)	\$ 1,000,000
14. Excess net capital (line 10 less line 13)	\$ 3,205,338
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$ 4,166,184

**Computation of Aggregate Indebtedness**

16. Total A.I. liabilities from Statement of Financial Condition	\$ 391,541
17. Add: A. Drafts for immediate credit	-
B. Market value of securities borrowed for which no equivalent value is paid or credited	-
C. Other unrecorded amounts	-
18. Deduct: Adjustment based on deposits in Special Reserve Accounts	-
19. Total aggregate indebtedness	\$ 391,541
20. Percentage of aggregate indebtedness to net capital (Line 19 divided by line 10)	9.31%

**Statement Pursuant to Paragraph (d)(4) of Rule 17a-5**

Differences between this computation of net capital and the corresponding computation prepared by Monroe Securities, Inc. and included in the Company's unaudited Part IIA FOCUS Report filing as of the same date, consisted of the following:

Excess net capital per the Company's FOCUS Report (unaudited)	\$ 3,362,486
Adjustments made to income and expense accounts which decreased ownership equity	(157,148)
Excess net capital per this computation	\$ 3,205,338

MONROE SECURITIES, INC.  
SCHEDULE II - COMPUTATION FOR DETERMINATION OF  
RESERVE AND INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS  
MARCH 31, 2004

**Exemption Under SEC Rule 15c3-3 Section (k)(2)(ii) Has Been Claimed**

The Company promptly transmits all funds received in connection with its activities as a broker-dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

# SALMIN, CELONA, WEHRLE & FLAHERTY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5 FOR A BROKER-DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

To the Board of Directors and Shareholders  
Monroe Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Monroe Securities, Inc. (Company and Predecessor) for the year ended March 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at March 31, 2004 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used by anyone other than these specified parties.

*Salmin, Celona, Wehrle & Flaherty, LLP*

Salmin, Celona, Wehrle & Flaherty, LLP

April 27, 2004